



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, May 24, 2013
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Mike Smarik, Vice-chair of the ASRS Board, called the meeting to order at 8:32 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Mike Smarik, Vice-chair
Mr. Tom Connelly
Professor Dennis Hoffman
Dr. Richard Jacob (via teleconference)
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

Absent: Mr. Tom Manos, Chair

One vacant position.

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Results

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Results: Russ Levine, Bruce Pampel, Dave King, Jean Langston, Jeremiah Scott, Diana Sanchez, Genevieve McBride, Team Relocate members, the ERM Disbursements Workgroup, the General Accounting Team, and the Phoenix Appointments Team. They were nominated by staff who feel they exemplify the following PRIDE qualities of results:

- Meet goals and objectives
- Satisfy customers
- Complete projects
- Attain individual accomplishments
- Produce quality work products
- Successfully manage risks

Mr. Guarino presented the PRIDE Award for Results to the award winners, Russ Levine and Bruce Pampel.

3. Approval of the Minutes of the April 26, 2013 Public Meeting of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the minutes of the April 26, 2013 Public Meeting of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Jared Meyerowitz's Appeal Requesting an Extension to Pay Expired ASRS Payroll Deduction Agreements

Ms. Jothi Beljan, Assistant Attorney General, presented the facts of Mr. Jared Meyerowitz's case to the Board. Mr. Meyerowitz placed two service purchase requests with the ASRS and entered into two Payroll Deduction Agreements (PDAs). Upon termination of employment, Mr. Meyerowitz requested a payoff of the remaining service on his two PDAs and completed some of the payments. Mr. Meyerowitz failed to complete all payments within ninety days of the ASRS payroll deduction agreement payoff letter as required.

Mr. Meyerowitz was not present. A representative of Mr. Meyerowitz was not present.

Motion: Mr. Kevin McCarthy moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination that Mr. Jared Meyerowitz is denied an extension to complete payment on the remaining amount of two ASRS Payroll Deduction Agreements, with the correction to Finding of Fact No. 13 that Appellant submitted his completed Agreement No. 60726 on May 4, 2006. Mr. Tom Connelly seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Kirk McElhaney's Appeal Requesting an Extension to Pay Expired ASRS Payroll Deduction Agreements

Ms. Jothi Beljan presented the facts of Mr. Kirk McElhaney's case to the Board. Mr. McElhaney placed two service purchase requests with the ASRS and entered into two PDAs. Upon termination of employment, he did not contact the ASRS in the required time frame. The Administrative Law Judge found no legal basis to grant Mr. McElhaney's request to complete payment on the remaining amount of his PDAs.

Mr. McElhaney argued he received bad advice from the Nationwide representative of his Arizona Department of Administration (ADOA) deferred compensation plan, administered by Nationwide. Ms. Beljan noted that Mr. McElhaney was requesting information on rollover options regarding his ADOA deferred compensation plan. In describing the process, the Nationwide representative referenced a step that occurred after the ASRS sent Mr. McElhaney a payroll deduction payoff letter. Mr. McElhaney made the assumption this was an automatic step, despite contrary instructions in his ASRS PDA. Mr. McElhaney did not clarify his assumption

with the Nationwide representative or the ASRS. Nationwide's staff should refer people to the ASRS for clarification.

Motion: Mr. Jeff Tyne moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination that that Mr. Kirk McElhaney is denied an extension to complete payment on the remaining amount of two ASRS Payroll Deduction Agreements. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the 2013 Legislative Session

Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the ASRS 2013 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen presented the bill tracker, summarizing ASRS 2013 legislative initiatives and other bills. She noted the Senate Engrossed budget included \$1.4 million for the Oracle modernization project.

7. Presentation, Discussion and Appropriate Action Regarding the Threshold for Paying a Lump Sum Retirement Benefit in Lieu of a Monthly Annuity

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Sara Orozco, Strategic Planning Manager, reviewed the history of the lump sum threshold and discussed the staff recommendation to increase the threshold when a lump sum benefit is paid in lieu of a monthly annuity from \$20 to \$100 for all retirements processed on or after July 1, 2013. Ms. Orozco noted the \$20 threshold was put in place in the early 1970s, when the defined benefit plan was created, and has not been adjusted since. Staff conducted analysis and found if the \$20 were adjusted for inflation, the amount would be approximately \$120 today. In addition to adjusting the dollar amount for inflation, the agency would experience operational savings of approximately \$500,000 over a 10-year period by avoiding the ongoing maintenance costs of maintaining and paying annuities of a small value. As a result of the analysis, legislation was proposed and passed in 2011, and rulemaking was completed in 2012 to permit the Board to adjust the threshold amount at its discretion. Ms. Orozco noted staff is now prepared to recommend an increase be implemented.

Motion: Mr. Tom Connelly moved to increase the threshold when a lump sum benefit is paid in lieu of a monthly annuity from \$20 per month to equal or less than \$100 per month, effective for all retirements processed on or after July 1, 2013. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding the SAAP Schematic

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding the SAAP Schematic. He said the last SAAP revision was approved about one year ago. Mr. Dokes noted the proposed changes in Exhibit A are minor and center around two areas: 1) changing the

minimum passive % applicability to Fixed Income Core Bonds only, rather than to the aggregate U.S. Fixed Income, and 2) defining the benchmarks for the new assets per the Board approved June 2012 SAAP.

Motion: Mr. Tom Connelly moved to approve proposed changes to the ASRS Asset Allocation Policy Schematic as denoted in Exhibit A. Mr. Jeff Tyne seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding the Experience Studies

Mr. Paul Matson, Director, introduced the topic, noting that the assumptions used in the Experience Studies would be discussed today, while the funding methodology of how to reach funded status would be discussed in June, and valuations will be presented in November. Mr. Matson pointed out the actuary uses assumptions to determine funded status and future contributions rates.

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Mr. Doug Fiddler, Director, Buck Consultants, addressed the Board regarding the Experience Study of the System, the Plan, the Health Insurance Plan, and the Long Term Disability (LTD) Plan. Mr. Chittenden and Mr. Fiddler covered several considerations and recommendations including mortality, disability, withdrawal, retirement, salary scale and health insurance benefit elections. Mr. Chittenden also provided projections for the contribution rate and the funded status based on various returns.

Motion: Mr. Tom Connelly moved to accept the Five-year Experience Study as presented, with the assumptions effective as of June 30, 2013 and to be reflected in the actuarial valuations as of June 30, 2013. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

10. Notification of Upcoming Board Elections to Occur at the June 28, 2013 Board Meeting

Mr. Mike Smarik, Acting Chair, addressed the Board regarding upcoming Board elections to occur at the June 28, 2013 Board Meeting. Pursuant to the ASRS Board Governance Policy Handbook, the ASRS Board is to elect a Board Chair and Vice-chair for Fiscal Year 2013/2014. The new Chair and Vice-chair positions will become effective July 1, 2013, and will continue through June 30, 2014.

11. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He had no comments and there was no discussion.

12. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations and Audit Committee Meetings

Mr. Jeff Tyne, Operations and Audit Committee (OAC) Chair, said the risk assessment will be discussed at the upcoming OAC meeting on July 30, 2013.

13. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings

Mr. Kevin McCarthy, External Affairs Committee (EAC) Chair, noted the June EAC meeting was cancelled because ASRS' main bill, SB 1170, was signed by the Governor in April. The next EAC Meeting will be held in September, 2013.

14. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings

Mr. Tom Connelly provided an update on the upcoming Investment Committee (IC) meeting, noting the Fixed Income asset class review, Investment Beliefs, and the Investment Policy Statement will be discussed. The next IC Meeting will be held on June 24, 2013.

15. Board Requests for Agenda Items

No requests were made.

16. Call to the Public

No members of the public requested to speak.

17. Presentation and Discussion Regarding Legal Advice on the McGonigle and Davis Appeals

Motion: Mr. Tom Connelly moved to go into executive session. Mr. Kevin McCarthy seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, and 1 vacancy, the motion was approved.

18. The next ASRS Board meeting is scheduled for Friday, June 28, 2013, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

19. Adjournment of the ASRS Board

The Board adjourned at 11:23 A.M. to go into executive session. The Board adjourned from executive session at 12:01 P.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date